

**VILLAGE OF CASS CITY**  
**Cass City, Michigan**  
**Annual Financial Statements**  
**and**  
**Auditors' Report**  
**December 31, 2005**

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name VILLAGE OF CASS CITY	County TUSCOLA
Audit Date VILLAGE OF CASS CITY	Opinion Date 3/3/06	Date Accountant Report Submitted to State: 4/24/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) Yeo & Yeo, P.C. CPAs			
Street Address 3149 MAIN STREET #4; PO BOX 218		City MARLETTE	State MI
Accountant Signature <i>Mar M. Kungu</i>		ZIP 48453-0218	

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**VILLAGE OF CASS CITY**  
**List of Elected and Appointed Officials**  
**December 31, 2005**

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VILLAGE COUNCIL

LAMBERT E. ALTHAVER

PRESIDENT

DAWN HOLLIS

PRESIDENT PRO-TEM

DONALD RICHARDS

TRUSTEE

JEFF GILLIG

TRUSTEE

DWIGHT D. THABET

TRUSTEE

JENNY ZAWILINSKI

TRUSTEE

MICHAEL KIRN

TRUSTEE

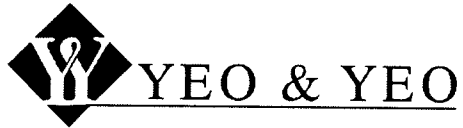
ADMINISTRATION

PETER CRISTIANO

VILLAGE MANAGER

NANETTE WALSH

VILLAGE CLERK/TREASURER



3149 Main Street, Suite Plaza #4  
Marlette, MI 48453  
Phone (989) 635-7518  
Fax (989) 635-3226

## Independent Auditors' Report

To the Village Manager  
and Members of the Village Council  
Village of Cass City  
Cass City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Cass City as of and for the year ended December 31, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Cass City as of December 31, 2005 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2006 on our consideration of the Village of Cass City internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Cass City's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Yeo & Yeo, P.C.*

Marlette, Michigan

March 3, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS



# Village of Cass City

## Management's Discussion and Analysis

### Year Ended December 31, 2005

Our discussion and analysis of the Village of Cass City's financial performance provides an overview of the Village's financial activities for the fiscal year ended December 31, 2005. Please read it in conjunction with the Village's financial statements.

#### Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2005.

Total net assets related to the Village's governmental activities is \$2,870,568 (see Table 1). The unrestricted portion of net assets is \$807,958.

Tax revenues, the Village's largest revenue source, increased by \$9,243 from 2004. This is representative of the increase in property values, with respect to Proposal A. Without new development, the Village will be faced with declining tax revenue, a direct result of Proposal A, which is a major concern to the Village.

State shared revenues, our second largest revenue source, was reduced by about \$ 6,079 by the State of Michigan this year. In light of continuing State Budget Problems, and constant threat to take away all statutory revenue sharing, the Village has reacted by invoking tighter controls over all expenditures. The Village had anticipated higher reductions in state shared revenues, but found funding levels stabilized somewhat in the third and fourth quarters. As the State of Michigan struggles with its budget challenges for 2006 and 2007, state shared revenues continue to be a concern for the Village.

#### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village of Cass City as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure

the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing governmental services.

The fund financial statements present a short-term view; they tell us how the taxpayer's resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds.

#### The Village of Cass City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

Table 1

	Governmental Activities 2005	Business-type Activities 2005	Total 2005	Total 2004
<b>Assets</b>				
Other	\$ 1,504,055	\$ 185,644	\$ 1,689,699	\$ 1,418,359
Capital	1,573,019	3,215,726	4,788,745	4,913,860
<b>Total Current Assets</b>	<b>3,077,074</b>	<b>3,401,370</b>	<b>6,478,444</b>	<b>6,332,219</b>
<b>Liabilities</b>				
Other	74,857	108,380	183,237	150,294
Long-term	131,649	295,357	427,006	475,152
<b>Total Liabilities</b>	<b>206,506</b>	<b>403,737</b>	<b>610,243</b>	<b>625,446</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	1,407,147	2,892,348	4,299,495	4,378,759
Restricted streets and highways	627,536	-	627,536	472,923
Restricted for special levied taxes	27,927	-	27,927	16,339
Unrestricted	807,958	105,285	913,243	838,752
<b>Total net assets</b>	<b>\$ 2,870,568</b>	<b>\$ 2,997,633</b>	<b>\$ 5,868,201</b>	<b>\$ 5,706,773</b>

# Village of Cass City

## Management's Discussion and Analysis

### Year Ended December 31, 2005

Village of Cass City net assets of governmental activities are \$2,870,568 and \$2,997,633 for business type activities; of these amounts \$807,958 (governmental) and \$105,285 (business-type) are unrestricted assets.

Table 2

	Governmental Activities	Business-type Activities	Total
<b>Revenue</b>			
Program revenue			
Charges for services	\$ 431,550	\$ 848,992	\$ 1,280,542
Capital grants and contributions	4,904	-	4,904
General revenue:			
Property taxes	1,020,962	-	1,020,962
State-shared revenue	555,019	-	555,019
Interest	24,265	2,653	26,918
Franchise fees and other revenue	34,181	3,435	37,616
<b>Total revenue</b>	<b>2,070,881</b>	<b>855,080</b>	<b>2,925,961</b>
<b>Program expenses</b>			
General government/legislative	412,293	-	412,293
Public safety	476,590	-	476,590
Public works	610,082	-	610,082
Recreation and culture	417,258	-	417,258
Interest on long-term debt	6,966	-	6,966
Water and sewer	-	821,265	821,265
Other	20,073	-	20,073
<b>Total program expenses</b>	<b>1,943,262</b>	<b>821,265</b>	<b>2,764,527</b>
<b>Change in net assets</b>	<b>\$ 127,619</b>	<b>\$ 33,815</b>	<b>\$ 161,434</b>

### GOVERNMENTAL ACTIVITIES

The Village of Cass City's total governmental activity revenues were \$2,070,881. There was a slight decrease in State-shared revenue, which has been offset with a slight increase in property taxes.

Governmental activity expenditures of \$1,943,262 were recorded for the year. This included increases in health care costs and property

and liability insurance rates, but also reflected a decrease in administrative costs due to the vacancy of the Village Manager and the retirement of the Chief of Police positions. Both positions were filled in July, 2005. The Village closely monitored its operational costs and spending in all areas.

### Business Type Activities

The Village of Cass City business-type activity consists of Water Fund and Sewer Fund.

The Village provides treated water to the Village residents. Raw water is pumped from three Village owned wells. The Village also provides water to four Elkland Township customers.

The Village also provides municipal sanitary sewer to its residents.

The Village increased water rates in fiscal year 2005 to begin work toward compliance with new Environmental Protection Agency (EPA) Arsenic Removal Rules that took effect January 26, 2006. The Village entered into an Administrative Consent Order with the Michigan Department of Environmental Quality that will allow the Village two years to comply with the new Arsenic Removal Rules.

Through the efforts of the Village and Spicer Engineering, a loan has been secured for approximately \$1.9 million from the United States Department of Agriculture, Rural Development Agency (USRD). The loan is at the rate of 4.18% to be repaid over a 40 year period, with installments of \$96,000 per year, from revenues collected from water users. A water rate increase set in December, 2005 will allow these payments to be made, plus secure a reserve account.

The USRD loan also includes a debt payoff of construction costs of Well #3, which have been included in the \$1.9 million loan, at a lower interest rate than the current 4.95% APR.

Specifications are prepared for the federally mandated Arsenic Treatment Facility (ATF). The ATF includes the arsenic treatment processing equipment, vehicle maintenance bays, and locker rooms

**Village of Cass City**  
**Management's Discussion and Analysis**  
**Year Ended December 31, 2005**

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for staff. Construction is expected to begin in late spring 2006.

**Village of Cass City Funds**

The fund financial statements provide detailed information about the most significant funds. The Village Council creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Act 51, Major and Local Street funds for 2005. The Cass City Village governmental major funds include General Fund, Major Street Fund, and Local Street Fund.

**a) General Fund**

Functions relating to the general governmental activities of the Village, which are financed by property tax levies, by distribution of State revenues, and from fees charged for various municipal activities and services are recorded in the General Fund. This fund had an increase in fund balance of \$26,964 over 2004.

**b) Major and Local Street Funds**

The State of Michigan provides municipalities revenues from gas and weight taxes to reimburse expenditures for the maintenance and construction of the Village's street system. The State requires that these expenditures be segregated into a Major Street component and a Local Street component. The Village uses these funds for improvements to the Village street system, along with contributions from General Fund. The fund balances in Major and Local Streets increased by \$154,615 in 2005.

**General Fund Budgetary Highlights**

Over the course of the year, the Village Council and Village administration monitor and amend the budget to account for unanticipated events during the year. The most significant change was a slow growth in State Equalized Values (SEV) of property in the Village, a decrease in State Shared Revenue, additional unfunded

mandates, and increased benefit costs. Prudent budgeting and continued monitoring of all expenditures reduced the effect of these issues.

**Capital Asset and Debt Administration**

At the end of 2005 the Village of Cass City has \$16,779,096 invested in a wide range of capital assets, including land, buildings, equipment, computer equipment, and water and sewer lines. The value of the infrastructure assets, net of depreciation contained in this report, is \$2,153,136 at the end of 2005.

Debt reported in these financial statements is related to the installation of a new well constructed early in 1998. The Village also has debt related to street construction that is paid by a Special Assessment on Northwood Meadows Assisted Living Facility. Finally there is debt reported from the lease of police vehicles. The Village has leased police vehicles since 1998 in an effort to save money. All debt is reported as a liability on the statement of net assets in this document.

**Economic Factors and Next Year's Budgets and Rates**

The Village of Cass City's budget for next year is slightly decreased due to Headlee Amendment. Because of the impact of Proposal A, and the minimal increase in taxable value, this increase will be minimal. However, the Village needs to continue to monitor its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or five (5) percent. Because some properties increased by less than inflation, the mathematical result of this is that the total taxable value for the Village will grow less than inflation, before considering new property additions. State revenue-sharing payments were decreased again this past year with the potential to decrease again due to State cutbacks.

The Village will need to address reductions in revenues to sustain a healthy budget. Commercial and residential development will help the

**Village of Cass City  
Management's Discussion and Analysis  
Year Ended December 31, 2005**

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Village maintain a healthy budget. The Village has encouraged economic development as well as residential development and will continue to in the future.

**Contacting the Village of Cass City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Village of Cass City's finances and to show the Village's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Village Manager, 6506 Main St., Cass City, MI 48726, (989) 872-2911 or via email at [villagemanager@cass-city.net](mailto:villagemanager@cass-city.net).

## BASIC FINANCIAL STATEMENTS

**Village of Cass City**  
**Statement of Net Assets**  
**December 31, 2005**

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 1,185,713	\$ 152,754	\$ 1,338,467
Receivables	181,052	129,706	310,758
Due from other governmental units	38,845	-	38,845
Accrued interest	1,572	-	1,572
Internal balances	96,816	(96,816)	-
Prepaid expense	57	-	57
Capital assets (net)	<u>1,573,019</u>	<u>3,215,726</u>	<u>4,788,745</u>
Total assets	<u>3,077,074</u>	<u>3,401,370</u>	<u>6,478,444</u>
<b>Liabilities</b>			
Accounts payable	14,216	69,929	84,145
Accrued payroll and other liabilities	23,862	5,550	29,412
Accrued interest	1,265	-	1,265
Customer deposits	1,291	4,880	6,171
Noncurrent liabilities			
Due within one year	34,223	28,021	62,244
Due in more than one year	<u>131,649</u>	<u>295,357</u>	<u>427,006</u>
Total liabilities	<u>206,506</u>	<u>403,737</u>	<u>610,243</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,407,147	2,892,348	4,299,495
Restricted streets and highways	627,536	-	627,536
Restricted for special levied taxes	27,927	-	27,927
Unrestricted	<u>807,958</u>	<u>105,285</u>	<u>913,243</u>
Total net assets	<u>\$ 2,870,568</u>	<u>\$ 2,997,633</u>	<u>\$ 5,868,201</u>

See Accompanying Notes to Financial Statements

**Village of Cass City**  
**Statement of Activities**  
**Year Ended December 31, 2005**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Totals
<b>Primary government</b>						
Governmental activities						
Legislative	\$ 81,288	\$ -	\$ -	\$ (81,288)	\$ -	\$ (81,288)
General government	331,005	396,610	4,904	70,509	-	70,509
Public safety	476,590	-	-	(476,590)	-	(476,590)
Public works	610,082	34,940	-	(575,142)	-	(575,142)
Recreation and culture	417,258	-	-	(417,258)	-	(417,258)
Other	20,073	-	-	(20,073)	-	(20,073)
Interest on long-term debt	6,966	-	-	(6,966)	-	(6,966)
Total governmental activities	1,943,262	431,550	4,904	(1,506,808)	-	(1,506,808)
Business-type activities						
Sewer	605,817	565,712	-	-	(40,105)	(40,105)
Water	215,448	283,280	-	-	67,832	67,832
Total business-type activities	821,265	848,992	-	-	27,727	27,727
Total primary government	\$ 2,764,527	\$ 1,280,542	\$ 4,904	(1,506,808)	27,727	(1,479,081)
General revenues						
Property taxes, levied for general purposes				1,020,962	-	1,020,962
State shared revenue				555,019	-	555,019
Unrestricted investment earnings				24,265	2,653	26,918
Miscellaneous				34,181	3,435	37,616
Total general revenues				1,634,427	6,088	1,640,515
Change in net assets				127,619	33,815	161,434
Net assets - beginning				2,742,949	2,963,818	5,706,767
Net assets - ending				\$ 2,870,568	\$ 2,997,633	\$ 5,868,201

See Accompanying Notes to Financial Statements

**Village of Cass City**  
**Balance Sheet**  
**Governmental Funds**  
**December 31, 2005**

	General	Major Street	Local Street	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 337,003	\$ 388,434	\$ 207,224	\$ 45,608	\$ 978,269
Receivables					
Property taxes	10,424	-	-	-	10,424
Accounts	30,628	-	-	-	30,628
Special assessments	-	-	140,000	-	140,000
Due from other funds	101,018	-	-	-	101,018
Due from state	-	29,559	9,286	-	38,845
Prepaid expense	57	-	-	-	57
Total assets	<u>\$ 479,130</u>	<u>\$ 417,993</u>	<u>\$ 356,510</u>	<u>\$ 45,608</u>	<u>\$ 1,299,241</u>
<b>Liabilities and Fund Balance</b>					
<b>Liabilities</b>					
Accounts payable and accrued expenses	\$ 7,709	\$ -	\$ 341	\$ 1,315	\$ 9,365
Accrued payroll	15,774	2,461	4,165	-	22,400
Deferred revenue	-	-	140,000	-	140,000
Customer deposits	1,291	-	-	-	1,291
Total liabilities	<u>24,774</u>	<u>2,461</u>	<u>144,506</u>	<u>1,315</u>	<u>173,056</u>
<b>Fund balance</b>					
Reserved for special levied taxes	27,927	-	-	-	27,927
Undesignated	426,429	415,532	212,004	44,293	1,098,258
Total fund balance	<u>454,356</u>	<u>415,532</u>	<u>212,004</u>	<u>44,293</u>	<u>1,126,185</u>
Total liabilities and fund balance	<u>\$ 479,130</u>	<u>\$ 417,993</u>	<u>\$ 356,510</u>	<u>\$ 45,608</u>	<u>\$ 1,299,241</u>

See Accompanying Notes to Financial Statements



**Village of Cass City**  
**Reconciliation of the Balance Sheet of**  
**Governmental Funds to the Statement of Net Assets**  
**December 31, 2005**

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<b>Total fund balances for governmental funds</b>		\$ 1,126,185
Total net assets reported for governmental activities in the statement of net assets		
is different because:		
Accrued interest receivable	\$ 1,572	
Deferred special assessments	<u>140,000</u>	141,572
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,460,085
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets.		
Balances as of December 31, 2005 are as follows:		
Special assessment debt	(145,000)	
Accrued interest payable	<u>(1,265)</u>	(146,265)
Internal service funds are used by management to charge the cost of equipment to individual funds. Certain assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.		<u>288,991</u>
<b>Net assets of governmental activities</b>		<b>\$ <u>2,870,568</u></b>

**Village of Cass City**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended December 31, 2005**

	General	Major Street	Local Street	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$ 715,598	\$ 173,463	\$ 362,544	\$ 43,476	\$ 1,295,081
State grant - public safety	1,124	-	-	-	1,124
State revenues	280,900	27,756	-	-	308,656
Charges for services rendered	155,445	-	38,223	-	193,668
Fines and forfeitures	4,123	-	-	-	4,123
Interest earnings	8,693	7,467	4,219	550	20,929
Contributions	3,780	-	-	-	3,780
Administration fee reimbursements	90,350	-	-	-	90,350
Miscellaneous and reimbursements	18,583	3,702	6,041	1,000	29,326
Total revenues	<u>1,278,596</u>	<u>212,388</u>	<u>411,027</u>	<u>45,026</u>	<u>1,947,037</u>
<b>Expenditures</b>					
Legislative	69,870	-	-	-	69,870
General government	301,762	-	-	-	301,762
Public safety	380,858	-	-	-	380,858
Public works	195,762	144,077	298,714	-	638,553
Recreation and culture	303,380	-	-	-	303,380
Miscellaneous	-	-	-	20,073	20,073
Total expenditures	<u>1,251,632</u>	<u>144,077</u>	<u>298,714</u>	<u>20,073</u>	<u>1,714,496</u>
Excess of revenues over expenditures	<u>26,964</u>	<u>68,311</u>	<u>112,313</u>	<u>24,953</u>	<u>1,714,496</u>
Other financing uses					
Bond principal	-	-	(20,000)	-	(20,000)
Bond interest	-	-	(6,009)	-	(6,009)
Total other financing uses	<u>-</u>	<u>-</u>	<u>(26,009)</u>	<u>-</u>	<u>(26,009)</u>
Excess of revenues over expenditures and other uses	<u>26,964</u>	<u>68,311</u>	<u>86,304</u>	<u>24,953</u>	<u>206,532</u>
Fund balance, beginning of year	<u>427,392</u>	<u>347,221</u>	<u>125,700</u>	<u>19,340</u>	<u>919,653</u>
Fund balance, end of year	<u>\$ 454,356</u>	<u>\$ 415,532</u>	<u>\$ 212,004</u>	<u>\$ 44,293</u>	<u>\$ 1,126,185</u>

See Accompanying Notes to Financial Statements

**Village of Cass City**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of**  
**Governmental Funds to the Statement of Activities**  
**Year Ended December 31, 2005**

		Primary Government
<b>Net change in fund balances - total governmental funds</b>		<b>\$ 206,532</b>
Total change in net assets reported for governmental activities in the statement of activities is different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Depreciation expense	\$ (172,016)	
Capital outlay	<u>77,458</u>	(94,558)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		
Special assessments		(31,039)
Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.		
Repayments of long-term debt		20,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in accrued interest receivable	(224)	
Change in accrued interest payable	<u>175</u>	(49)
Internal service funds are used by management to charge the cost of equipment to individual funds. Certain net revenue (expense) of internal service funds are included in governmental activities in the statement of activities		<u>26,733</u>
<b>Change in net assets of governmental activities</b>		<b>\$ 127,619</b>

**Village of Cass City**  
**Statement of Net Assets**  
**Proprietary Funds**  
**December 31, 2005**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 140,648	\$ 12,106	\$ 152,754	\$ 207,444
Due from other funds	18,593	-	18,593	-
Accounts receivable	87,544	42,162	129,706	-
Total current assets	246,785	54,268	301,053	207,444
Property and equipment				
Property, plant and equipment	7,073,317	1,154,292	8,227,609	760,034
Less: accumulated depreciation	4,535,965	475,918	5,011,883	647,100
Net property and equipment	2,537,352	678,374	3,215,726	112,934
Total assets	\$ 2,784,137	\$ 732,642	\$ 3,516,779	\$ 320,378
<b>Liabilities</b>				
Current liabilities				
Current portion of long term liabilities	\$ -	\$ 28,021	\$ 28,021	\$ 14,223
Due to other funds	-	119,611	119,611	-
Accounts payable and accrued expenses	17,699	52,230	69,929	4,851
Accrued payroll	4,282	1,268	5,550	1462
Deposits payable	2,792	2,088	4,880	-
Total current liabilities	24,773	203,218	227,991	20,536
Long term liabilities				
Notes, loans and lease payable	-	295,357	295,357	6,649
Total liabilities	24,773	498,575	523,348	27,185
<b>Net assets</b>				
Invested in capital assets, net of related debt	2,537,352	354,996	2,892,348	-
Net assets	222,012	(120,929)	101,083	293,193
Total net assets	2,759,364	234,067	2,993,431	293,193
Total	\$ 2,784,137	\$ 732,642		\$ 320,378

Some amounts reported for business-type activities in the statement of net assets are different because certain internal service funds assets and liabilities are reported with business-type activities

Net assets of business-type activities

4,202  
\$ 2,997,633

See Accompanying Notes to Financial Statements

**Village of Cass City**  
**Statement of Revenues,**  
**Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**Year Ended December 31, 2005**

	Business-type Activities - Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	
<b>Operating revenues</b>				
Charges for services	\$ 565,712	\$ 283,280	\$ 848,992	\$ 195,674
<b>Operating expenses</b>				
Personal services	268,855	68,203	337,058	36,277
Administration fees	16,800	21,300	38,100	28,250
Contractual services	21,199	16,740	37,939	-
Operating supplies	25,106	5,052	30,158	35,511
Chemicals	16,015	10,447	26,462	-
Utilities	66,272	13,416	79,688	-
Equipment rental	9,817	11,033	20,850	-
Repair and maintenance	8,165	3,776	11,941	19,393
Miscellaneous	17,717	2,297	20,014	-
Depreciation	157,370	49,665	207,035	49,857
Total operating expenses	607,316	201,929	809,245	169,288
Operating income (loss)	(41,604)	81,351	39,747	26,386
<b>Nonoperating revenues (expenses)</b>				
Other	-	3,435	3,435	1,244
Interest income	2,516	137	2,653	3,560
Interest expense	-	(15,210)	(15,210)	(1,267)
Total nonoperating revenues (expenses)	2,516	(11,638)	(9,122)	3,537
Change in net assets	(39,088)	69,713	30,625	29,923
Net assets, beginning of year	2,798,452	164,354	2,962,806	263,270
Net assets, end of year	\$ 2,759,364	\$ 234,067	2,993,431	\$ 293,193
Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities.			4,202	
Change in net asset of business-type activities			\$ 2,997,633	

See Accompanying Notes to Financial Statements

**Village of Cass City**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended December 31, 2005**

	Business-type Activities - Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	
<b>Cash flows from operating activities</b>				
Receipts from customers	\$ 557,757	\$ 280,096	\$ 837,853	\$ 195,674
Payments to suppliers	(179,831)	(83,046)	(262,877)	(83,205)
Payments to employees	(268,518)	(68,410)	(336,928)	(36,059)
Internal activity - payments to other funds	(9,043)	10,309	1,266	-
Other receipts (payments)	(238)	1,278	1,040	1,244
Net cash provided by operating activities	100,127	140,227	240,354	77,654
<b>Cash flows from capital and related financing activities</b>				
Principal and interest paid on capital debt	-	(42,000)	(42,000)	(21,475)
Acquisition of property and equipment	(54,959)	(102,488)	(157,447)	-
Net cash used by capital and related financing activities	(54,959)	(144,488)	(199,447)	(21,475)
<b>Cash flows from investing activities</b>				
Interest revenue	2,516	137	2,653	3,560
Net increase (decrease) in cash	47,684	(4,124)	43,560	59,739
Cash, beginning of year	92,964	16,230	109,194	147,705
Cash, end of year	\$ 140,648	\$ 12,106	\$ 152,754	\$ 207,444
<b>Reconciliation of operating income to net cash provided by operating activities</b>				
Operating income (loss)	\$ (41,604)	\$ 81,351	\$ 39,747	\$ 26,386
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation expense	157,370	49,665	207,035	49,857
Change in assets and liabilities				
Receivables	(7,955)	(3,184)	(11,139)	-
Due from other funds	(9,043)	-	(9,043)	-
Accounts payable	1,260	1,015	2,275	(51)
Accrued payroll	337	(207)	130	218
Deposits payable	(238)	1,278	1,040	1,244
Due to other funds	-	10,309	10,309	-
	\$ 100,127	\$ 140,227	\$ 240,354	\$ 77,654
<b>Supplemental disclosures of cash flow information</b>				
Non-cash financing and investing activities				
Increase in capital assets obtained with an increase in debt	\$ -	\$ 47,743	\$ 47,743	\$ 21,145

See Accompanying Notes to Financial Statements

**Village of Cass City**  
**Notes to Financial Statements**  
**December 31, 2005**

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**Note 1 – Summary of Significant Accounting Policies**

The accounting policies of the Village of Cass City conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village:

**Government-wide and fund financial statements**

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, normally supported by taxes and inter-governmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenue are reported as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and the major enterprise funds are reported in separate columns in the fund financial statements.

**Reporting entity**

The Village of Cass City is governed by an elected seven member council. The accompanying financial statements present the

government entities for which the government is considered to be financially accountable.

**Measurement focus, basis of accounting and financial statement presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Those revenues susceptible to accrual are property taxes, special assessments, licenses, interest revenue, and charges for services. Sales taxes collected and held by the State at year end on behalf of the government also are recognized as revenue. Fines and permits revenues are not susceptible to accrual because generally they are not measurable until received in cash.

**Village of Cass City**  
**Notes to Financial Statements**  
**December 31, 2005**

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The Village reports the following Major Governmental Funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major and Local Street Funds account for the resources of state gas and weight tax revenue that are restricted for use on Major and Local Streets.

The Village reports the following Major Proprietary Funds:

- The Sewer Fund accounts for the cost of collection and treating waste waters.
- The Water Fund accounts for the costs of providing water services to Village residents.

Additionally, the Village reports the following:

**Internal Service Fund** – This fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the Village on a cost reimbursement basis.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided (2)

operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds, relate to charges to customers for water sales and services and sewage disposal. The Water and Sewer Fund also recognizes connection fees intended to recover the cost of the infrastructure. Operating expenses for proprietary funds include the cost of water, sewage disposal, operations and maintenance, general and administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**Property tax revenue**

Property taxes are levied on each January 1 on the taxable valuation of property as of the preceding December 31 and become a lien in May of the following year. These taxes are due on September 1 with the final collection date of October 1 before they are added to the County tax rolls.

**Assets, liabilities and net assets or equity**

**Cash and investments** – The Village has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Additionally, each fund's equity in the Village's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty. Shared pooled investment income is allocated to each fund based on its percentage of the balance in the pool.

**Receivables and payable** – In general, outstanding balances between



**Village of Cass City**  
**Notes to Financial Statements**  
**December 31, 2005**

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funds are reported as "due to/from other fund." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

*Prepaid items* – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

*Capital assets* – Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Village began recording governmental infrastructure constructed on or after January 1, 2004 as allowed by GASB 34.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives.

Land improvements	10 to 20 years
Building and building improvements	10 to 40 years
Utility systems	10 to 40 years
Roads	10 years
Other infrastructure	10 to 40 years
Vehicles	5 to 10 years
Heavy duty equipment	10 to 40 years
Machinery and equipment	5 to 10 years

*Compensated absences* – Exchange time is defined as those hours that the employee can take as paid time off in lieu of overtime pay. The maximum number of hours that can be held in a bank at any one time during a fiscal year is forty. Exchange time can be carried over into the next fiscal year and must be used during the first three months of the new fiscal year. Any unused hours as of March 31<sup>st</sup> of the new fiscal year will be paid to the employee at the rate of pay in effect the prior fiscal year.

*Long-term obligations* – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

*Fund equity* – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

#### **Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. There were no estimates required for year 2005.

#### **Comparative data**

Comparative data is not included in the Village's financial statements.

**Village of Cass City**  
**Notes to Financial Statements**  
**December 31, 2005**

**Note 2 – Stewardship, Compliance, and Accountability**

**Excess of expenditures over appropriations**

	Final Budget	Actual	Excess
General Fund			
Legislative	\$ 67,828	69,870	\$ 2,042
General government	291,549	\$ 301,762	10,213
Public works	187,618	195,762	8,144
Major Street Fund			
Public works	137,800	144,077	6,277

**Note 3 – Deposits and Investments**

*Interest rate risk* – The Village does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

*Credit risk* – State statutes and the Village's investment policy authorize the Village to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the Village is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed or authorized investment vehicles.

*Concentrations of credit risk* – The Village has no policy that would limit the amount that may be invested with any one issuer.

*Custodial credit risk – deposits* – In the case of deposits, this is the risk that in the event of bank failure, the Village's deposits may not be returned to it. The Village does not have a deposit policy for custodial credit risk. As of December 31, 2005, \$1,154,077 of the Village's

bank balance of \$1,354,077 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial credit risk – investments* – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. There were no investments held at year end.

**Note 4 – Receivables**

Receivables as of year end for the government's individual major and nonmajor funds, and the internal service and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Major Street	Local Street	Sewer	Water	Total
Due within one year	\$ 41,052	\$ 29,559	\$ 29,286	\$ 87,544	\$ 42,162	\$ 229,603
Due after one year	-	-	120,000	-	-	120,000
	<u>\$ 41,052</u>	<u>\$ 29,559</u>	<u>\$ 149,286</u>	<u>\$ 87,544</u>	<u>\$ 42,162</u>	<u>\$ 349,603</u>

The allowance for all receivables at year end is zero, because all is expected to be collected.

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>
Special assessments not yet due	<u>\$ 140,000</u>

**Village of Cass City**  
**Notes to Financial Statements**  
**December 31, 2005**

**Note 5 – Interfund Receivables, Payables, and Transfers**

The composition of interfund balances is as follows:

**Due to/from other funds**

Receivable	Payable	Amount	Purpose
General	Water	\$ 101,018	Reimbursement of expenditures paid for by the General Fund
Sewer	Water	18,593	Reimbursement of expenditures paid for by the Sewer Fund
		<u>\$ 119,611</u>	

**Note 6 – Capital Assets**

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 655,205	\$ -	\$ -	\$ 655,205
Capital assets being depreciated				
Buildings	703,625	-	-	703,625
Improvements other than buildings	310,246	-	-	310,246
Machinery and equipment	738,888	21,147	-	760,035
Roads and sidewalks	6,044,918	77,458	-	6,122,376
Capital assets being depreciated	<u>7,797,677</u>	<u>98,605</u>	<u>-</u>	<u>7,896,282</u>
Less accumulated depreciation for				
Buildings	506,360	21,179	-	527,539
Improvements other than buildings	212,033	11,987	-	224,020
Machinery and equipment	597,244	49,857	-	647,101
Roads and sidewalks	5,440,958	138,850	-	5,579,808
Accumulated depreciation	<u>6,756,595</u>	<u>221,873</u>	<u>-</u>	<u>6,978,468</u>
Net capital assets being depreciated	<u>1,041,082</u>	<u>(123,268)</u>	<u>-</u>	<u>917,814</u>
Governmental activities capital assets, net	<u>\$ 1,696,287</u>	<u>\$ (123,268)</u>	<u>\$ -</u>	<u>\$ 1,573,019</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities</b>				
Capital assets not being depreciated				
Pre-construction costs	\$ -	\$ 112,453	\$ -	\$ 112,453
Capital assets being depreciated				
Plant	3,101,621	-	-	3,101,621
Machinery and equipment	150,023	-	-	150,023
Distribution and collection systems	4,770,777	92,735	-	4,863,512
Capital assets being depreciated	<u>8,022,421</u>	<u>92,735</u>	<u>-</u>	<u>8,115,156</u>
Less accumulated depreciation for				
Plant	1,547,393	69,267	-	1,616,660
Machinery and equipment	136,591	5,688	-	142,279
Distribution and collection systems	3,120,864	132,080	-	3,252,944
Accumulated depreciation	<u>4,804,848</u>	<u>207,035</u>	<u>-</u>	<u>5,011,883</u>
Business-type capital assets, net	<u>\$ 3,217,573</u>	<u>\$ (114,300)</u>	<u>\$ -</u>	<u>\$ 3,215,726</u>

Depreciation expense was charged to programs of the primary government as follows:

**Governmental activities**

Governmental activities depreciation is charged to various functions based on a percentage of expenses \$172,016

Internal service fund depreciation is charged to the various functions based on usage of the assets 49,857

Total governmental activities \$ 221,873

**Business-type activities**

Water \$ 49,665  
Sewer 157,370

Total business-type activities \$ 207,035

**Village of Cass City**  
**Notes to Financial Statements**  
**December 31, 2005**

**Note 7 – Long-Term Debt**

Installment purchase agreements are general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Village is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the Village) are received.

Long-term obligation activity is summarized as follows:

	Maturity Dates	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>								
Special assessment bonds	10/1/13	3.49%	\$15,000	\$ 165,000	\$ -	\$ 20,000	\$ 145,000	\$ 20,000
Capitalized lease - vehicle	2/14/05	7.25%	\$6,000 - \$7,000	6,762	-	6,762	-	-
Capitalized lease - vehicle	2/9/06	5.90%	\$6,000 - \$7,000	13,171	-	6,397	6,774	6,774
Capitalized lease - vehicle	3/15/07	5.00%	\$6,000 - \$7,000	21,146	-	7,048	14,098	7,449
				<u>\$ 206,079</u>	<u>\$ -</u>	<u>\$ 40,207</u>	<u>\$ 165,872</u>	<u>\$ 34,223</u>
<b>Business-type activities</b>								
Installment loan	5/31/06	4.50%	\$25,000 - \$258,000	<u>\$ 350,168</u>	<u>\$ -</u>	<u>\$ 26,790</u>	<u>\$ 323,378</u>	<u>\$ 28,021</u>

**Village of Cass City**  
**Notes to Financial Statements**  
**December 31, 2005**

Annual debt service requirements to maturity for the above bond obligations are as follows:

Year Ended June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 34,223	\$ 5,838	\$ 28,021	\$ 13,979
2007	26,649	4,763	29,309	12,691
2008	20,000	3,665	266,048	5,845
2009	20,000	2,967	-	-
2010	20,000	2,269	-	-
2011-2015	45,000	2,443	-	-
Total	<u>\$ 165,872</u>	<u>\$ 21,943</u>	<u>\$ 323,378</u>	<u>\$ 32,515</u>

**Capital leases**

The government has entered into lease agreements as lessee for financing the purchase of two vehicles. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value are as follows:

Year Ended June 30	
2005	\$ 14,223
2006	<u>7,049</u>
Total minimum lease payments	21,272
Less: amount representing interest	<u>400</u>
Present value	<u>\$ 20,872</u>

The assets acquired through capital lease are as follows:

Asset:

Machinery and equipment	\$ 61,811
Less: accumulated depreciation	<u>(38,628)</u>
Total	<u>\$ 23,183</u>

**Note 8 – Risk Management**

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for workers' compensation claims and claims related to property, general liability, and automobile.

The possibility of additional claims exists but, the amount of liability to the Village would be immaterial by the time the aggregate stop loss coverage's are triggered. There is also a possibility of a refund due to the Village. Therefore, no contingent liabilities or assets have been recognized on the Village's financial statements for the year ended December 31, 2005.

**Note 9 – Employee Retirement and Benefit Systems**

The Village has established a money purchase retirement plan. The Village contributed \$65,303 to the plan for the year ended December 31, 2005, which was 10% of gross base wages. Additionally, the employees contributed \$26,120 to the plan, which is a mandatory 4% match.

The Village also has a section 457 retirement trust plan to which the employees may contribute. For the fiscal year ended December 31, 2005, employees had contributed \$26,584.

**Village of Cass City**  
**Notes to Financial Statements**  
**December 31, 2005**

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**Note 10 – Subsequent Event**

Subsequent to year end the Village of Cass City entered into an agreement with the United States Department of Agriculture to finance the construction of a water treatment plant that will allow the Village to comply with Federal guidelines on arsenic levels. The projected cost of the project is \$1.9 million and construction is planned to begin in 2006

REQUIRED SUPPLEMENTAL INFORMATION

**Village of Cass City**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended December 31, 2005**

	Budgeted Amounts			Actual
	Original	Final	Actual	Over (Under) Final Budget
<b>Revenues</b>				
Taxes	\$ 711,981	\$ 711,981	\$ 715,598	\$ 3,617
State grant - public safety	1,100	1,100	1,124	24
State shared revenues	277,242	277,242	280,900	3,658
Charges for services rendered	147,416	147,416	155,445	8,029
Fines and forfeitures	7,350	7,350	4,123	(3,227)
Interest earnings	11,000	11,000	8,693	(2,307)
Contributions	3,250	3,250	3,780	530
Administration fee reimbursements	90,350	90,350	90,350	-
Miscellaneous and reimbursements	8,250	8,250	18,583	10,333
Total revenues	1,257,939	1,257,939	1,278,596	20,657
<b>Expenditures</b>				
Legislative	110,328	67,828	69,870	2,042
General government	281,724	291,549	301,762	10,213
Public safety	416,654	386,654	380,858	(5,796)
Public works	177,618	187,618	195,762	8,144
Recreation and culture	264,086	316,761	303,380	(13,381)
Total expenditures	1,250,410	1,250,410	1,251,632	1,222
Excess of revenues over expenditures	7,529	7,529	26,964	19,435
Fund balance, beginning of year	427,392	427,392	427,392	-
Fund balance, end of year	\$ 434,921	\$ 434,921	\$ 454,356	\$ 19,435



**Village of Cass City**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Major Street Fund**  
**Year Ended December 31, 2005**

	<u>Budgeted Amounts</u>			Actual
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Over (Under)</u> <u>Final Budget</u>
Revenues				
Gas and weight tax	\$ 124,200	\$ 124,200	\$ 136,763	\$ 12,563
Trunkline maintenance	18,270	20,270	27,756	7,486
Property taxes	6,779	6,779	7,433	654
County bridge tax	28,596	28,596	29,267	671
Miscellaneous	4,325	4,325	3,702	(623)
Interest earnings	1,600	4,100	7,467	3,367
Total revenues	<u>183,770</u>	<u>188,270</u>	<u>212,388</u>	<u>24,118</u>
Expenditures				
Public works	<u>133,300</u>	<u>137,800</u>	<u>144,077</u>	<u>6,277</u>
Excess of revenues over expenditures	50,470	50,470	68,311	17,841
Fund balance, beginning of year	<u>347,221</u>	<u>347,221</u>	<u>347,221</u>	<u>-</u>
Fund balance, end of year	<u>\$ 397,691</u>	<u>\$ 397,691</u>	<u>\$ 415,532</u>	<u>\$ 17,841</u>

**Village of Cass City**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Local Street Fund**  
**Year Ended December 31, 2005**

	Budgeted Amounts			Actual
	Original	Final	Actual	Over (Under) Final Budget
Revenues				
Gas and weight tax	\$ 55,800	\$ 55,800	\$ 60,338	\$ 4,538
Property taxes	252,988	252,988	254,455	1,467
County bridge tax	46,655	46,655	47,751	1,096
Special assessments	28,082	28,082	38,223	10,141
Miscellaneous	9,477	9,477	6,041	(3,436)
Interest earnings	2,000	2,000	4,219	2,219
Total revenues	<u>395,002</u>	<u>395,002</u>	<u>411,027</u>	<u>16,025</u>
Expenditures				
Public works	<u>354,136</u>	<u>354,136</u>	<u>298,714</u>	<u>(55,422)</u>
Excess of revenues over expenditures	<u>40,866</u>	<u>40,866</u>	<u>112,313</u>	<u>71,447</u>
Other financing sources (uses)				
Bond principal	(20,000)	(20,000)	(20,000)	-
Bond interest	(6,457)	(6,457)	(5,759)	(698)
Bond fees	<u>(250)</u>	<u>(250)</u>	<u>(250)</u>	<u>-</u>
Total other financing sources (uses)	<u>(26,707)</u>	<u>(26,707)</u>	<u>(26,009)</u>	<u>(698)</u>
Excess of revenues over expenditures and other uses	14,159	14,159	86,304	72,145
Fund balance, beginning of year	<u>125,700</u>	<u>125,700</u>	<u>125,700</u>	<u>-</u>
Fund balance, end of year	<u>\$ 139,859</u>	<u>\$ 139,859</u>	<u>\$ 212,004</u>	<u>\$ 72,145</u>

OTHER SUPPLEMENTAL INFORMATION

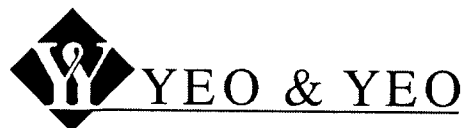
**Village of Cass City**  
**Other Supplemental Information**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**December 31, 2005**

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	<u>Economic Development Corporation</u>	<u>Downtown Development Authority</u>	<u>Total Nonmajor Governmental Funds</u>
<b>Assets</b>			
Cash	<u>\$ 1,170</u>	<u>\$ 44,438</u>	<u>\$ 45,608</u>
<b>Liabilities and Fund Balance</b>			
Liabilities			
Accounts payable and accrued expenses	\$ -	\$ 1,315	\$ 1,315
Fund balance	<u>1,170</u>	<u>43,123</u>	<u>44,293</u>
Total liabilities and fund balance	<u>\$ 1,170</u>	<u>\$ 44,438</u>	<u>\$ 45,608</u>

**Village of Cass City**  
**Other Supplemental Information**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**Year Ended December 31, 2005**

	Economic Development Corporation	Downtown Development Authority	Nonmajor Governmental Funds
<b>Revenues</b>			
Property taxes	\$ -	\$ 43,476	\$ 43,476
Miscellaneous	1,000	-	1,000
Interest earned	6	544	550
	<u>1,006</u>	<u>44,020</u>	<u>45,026</u>
Total revenues			
	<u>1,006</u>	<u>44,020</u>	<u>45,026</u>
<b>Expenditures</b>			
Miscellaneous	<u>241</u>	<u>19,832</u>	<u>20,073</u>
	765	24,188	24,953
Excess of revenues over expenditures			
	<u>405</u>	<u>18,935</u>	<u>19,340</u>
Fund balance, beginning of year			
	<u>405</u>	<u>18,935</u>	<u>19,340</u>
Fund balance, end of year	<u>\$ 1,170</u>	<u>\$ 43,123</u>	<u>\$ 44,293</u>



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## **Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

To the Village Manager  
and Members of the Village Council  
Cass City, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Cass City as of and for the year ended December 31, 2005, which collectively comprise the Village's basic financial statements and have issued our report thereon dated March 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village of Cass City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Cass City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Village Council, management, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Yeo & Yeo, P.C.*

Marlette, Michigan  
March 3, 2006